The Great Atlantic &

Pacific Tea Company, Inc.

Annual Report 1986

We're building a proud new future

The Great Atlantic & Pacific Tea Company, Inc., founded in 1859, is a company that has rededicated itself to excellence and leadership within the retail food business. This involves long-range commitments to:

Our shareholders, by consistently increasing the value of their investments.

Our customers, by satisfying their food shopping needs more effectively than the competition.

Our employees, by providing improved opportunities for professional growth and achievement.

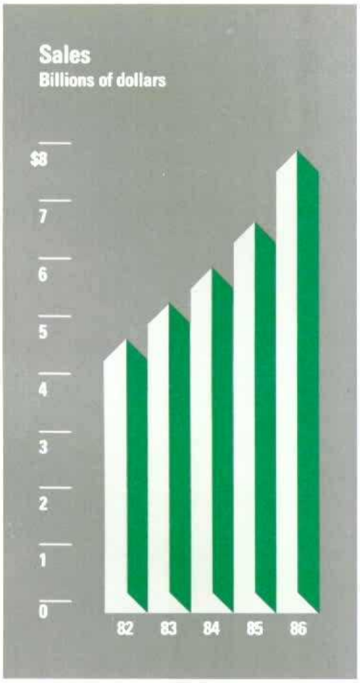
Our communities, by acting as good citizens and contributing important value to the neighborhoods we serve.

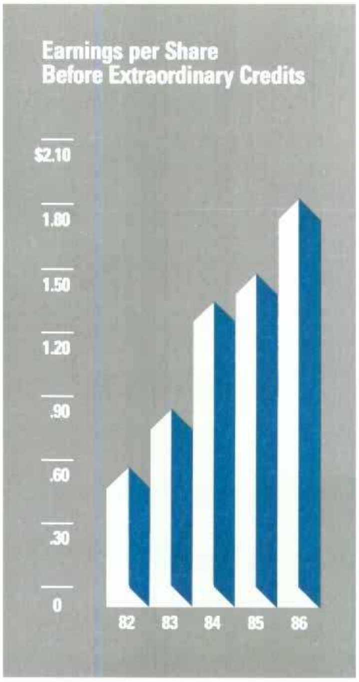
We strive to accomplish these primary goals by adhering to a simple premise that remains as vital today as it was in 1859: *Keep searching for better ways to serve the customer.*

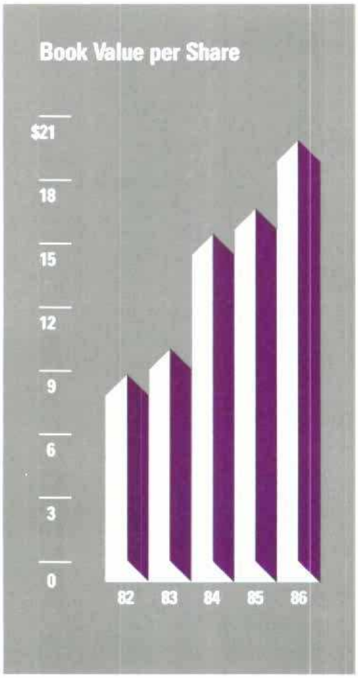
Comparative Highlights

(Dollars in thousands except per share figures)

For the fiscal year	1986 (53 weeks)	1985 (52 weeks)	1984 (52 weeks)
Sales	**$7,834,859**	$6,615,422	$5,878,286
Income before extraordinary credits	**69,010**	56,090	50,779
Net income	**95,010**	88,290	215,779
Income per share before extraordinary credits	**1.82**	1.48	1.35
Cash dividends per share	**.40**	.10	—
Expenditures for property	**163,239**	108,579	112,695
Working capital	**93,418**	174,091	170,292
Current ratio	**1.12**	1.30	1.36
Shareholders' equity	**755,718**	668,688	582,953
Book value per share	**19.85**	17.63	15.48
Number of stores at year end	**1,200**	1,045	1,001







The Great Atlantic & Pacific Tea Company, Inc. At-A-Glance

	Where we were	Where we are
Our people	Strategic reorganization. Performance-based bonus plans. Quality of Work Life Program tested by Super Fresh.	81,500 employees, more sophisticated and skilled. Quality of Work Life now expanded to 243 stores.
Our stores	1983—beginning of remodelling; Kohl's. 1984—birth of the Futurestore and Sav-A-Center. 1985—Dominion. 1986—Shopwell and Waldbaum.	Gourmet stores (Food Emporium), superstores (Futurestore, Sav-A-Center), upgraded supermarkets (A&P, Super Fresh, Kohl's, Waldbaum, Dominion).
Our operations	Disciplined cost controls instituted to pull the company back into profitability. Initial development of new store operating systems and procedures.	Three-year financial control program currently ahead of schedule. Store operations systems and procedures now fully implemented.
Our merchandising	Smaller stores offering little product assortment or distinction; appeal was solely to the "traditional" family.	Store formats and products that more closely match regional demographics. Many service areas under one roof. Expanded perishables.
Our customers	Mass market retailing. Majority of shoppers fit into median demographics for age, income, education and lifestyle.	A keen eye to emerging consumer groups—working women, men, singles and teenagers—all of whom are increasingly sophisticated. Renewed employee pride.

A&P by Geographic Region

The maps on the right show a breakdown of A&P-operated stores by geographic region. Store names are coded as follows:

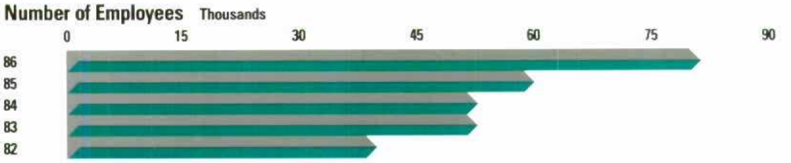
- ▲ A&P
- ▲ Dominion
- ▲ Food Emporium
- ▲ Kohl's
- ▲ Super Fresh
- ▲ Waldbaum

Northeast Operations

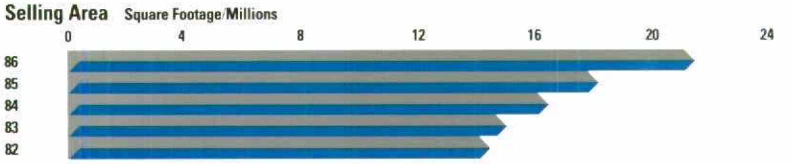
Southern Operations

Where we're going

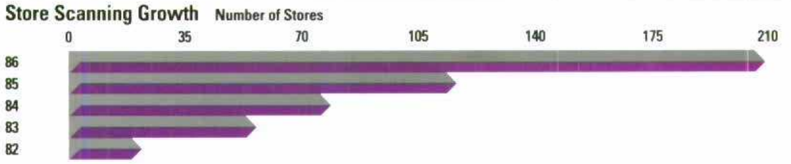
Better training programs and participatory management. Productivity results that surpass the industry standard.



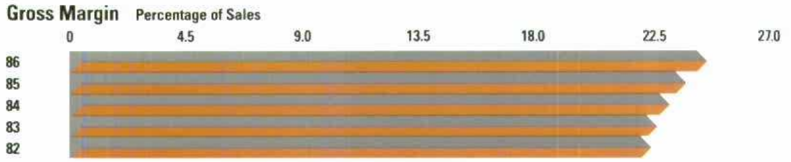
Complete three-year, $450 million plan to open 120 new stores and modernize 300 others by 1988. Larger stores to accommodate more service areas.



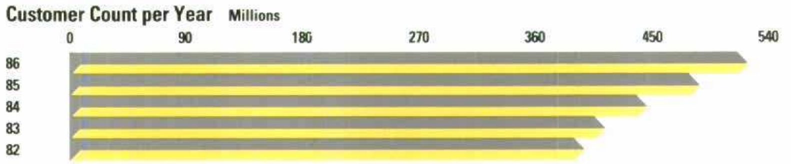
Further development of store checkout scanning capabilities. State-of-the-art computer applications on both corporate and store levels.



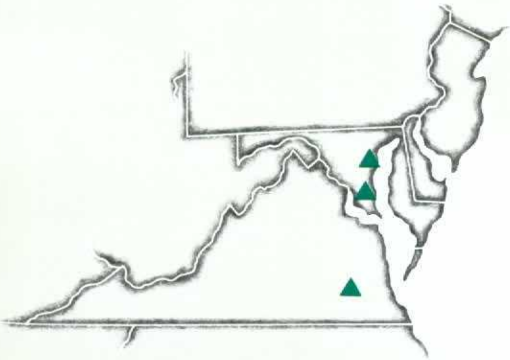
Even greater variety to keep pace with the specialized needs of consumer groups. Improved marketing and merchandising concepts.



Increased customer service and helpfulness. Overriding goal: Keep looking for better ways to serve our customers.

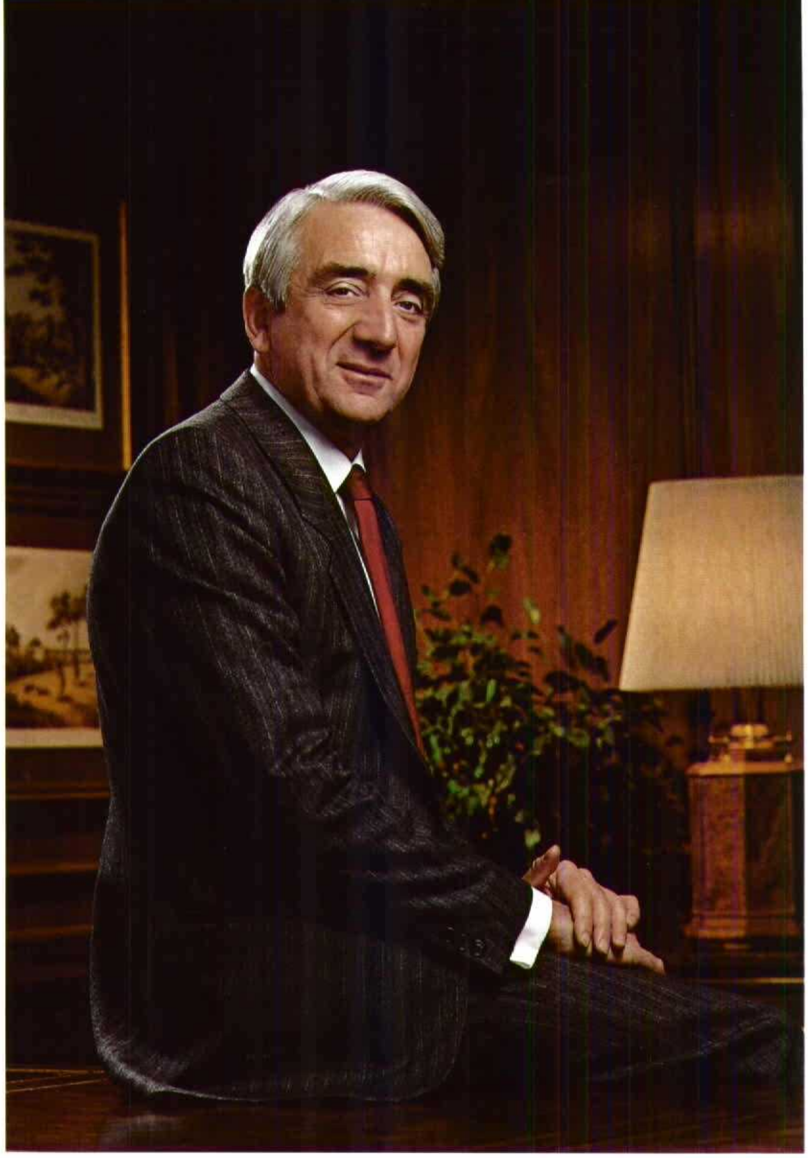


Mid-Atlantic Operations



Midwest Operations

Canadian Operations



To Our Shareholders:

Once again, A&P reached new highs in sales and profits. 1986 was the fifth consecutive year of improving results since our turning point in 1982.

We successfully completed the acquisitions of the 53-store Shopwell/Food Emporium Company during the second quarter, and the 139-store Waldbaum/Food Mart chain in the fourth quarter of fiscal 1986. Dominion Stores of Ontario, purchased in 1985, were fully integrated into our A&P Canadian Company during 1986 and are already generating profits equal to that of the A&P stores.

These acquisitions and the success of our store renewal program, enabled us to finish 1986 with the market share leadership in Ontario and New York, the largest markets in Canada and the United States.

Financial Performance

Fiscal 1986 sales increased 18.4% over 1985 to $7,834,859,000. Net income was up 7.6% to $95,010,000 or $2.50 per share, and income before extraordinary credits increased 23% to $69,010,000 or $1.82 per share. We completely utilized our extraordinary tax carryforwards at the end of the third quarter 1986, therefore meaningful earnings comparisons in 1987 will be on income before extraordinary credit.

Operations Review

The Shopwell and Food Emporium stores have become part of our Metro New York Group and we anticipate converting all Shopwell stores to A&P by the end of 1987. We will also convert some A&P city stores to the upscale Food Emporium format as we seek to maximize sales and profit opportunities in our excellent New York locations.

Waldbaum will continue to operate as a separate organization, but we have initiated plans to achieve purchasing, distribution and administrative synergies among the A&P, Food Emporium and Waldbaum operations throughout Metro New York and New England in the coming year.

In Canada, synergies from the Dominion acquisition contributed heavily to sales and earnings improvements in 1986, and should fully mature in 1987. We completed the consolidation of the A&P and Dominion warehousing operations during the year and 47 Dominion stores outside of Toronto have been converted to the A&P identity. These changes will help achieve higher sales, lower costs and improved profitability for the combined chain.

We began a very important transition in the Mid-Atlantic region last year with the successful negotiation of a Super Fresh-style labor agreement in Virginia, Baltimore and Washington. During 1987, we will complete the conversion of all A&P and Pantry Pride stores to the Super Fresh identity and

will have a Quality of Work Life program in full operation. This unique labor agreement, which has been so successful in our Philadelphia and Wisconsin operations, has now been extended to our employees in nearly one-quarter of our U.S. stores.

In the Midwest, we strengthened our Michigan operations last year with the acquisition of five former Chatham stores and the addition of the first two A&P Sav-A-Centers in that state. We are planning additional remodeling and new stores there, as well as in Wisconsin, where our Kohl's subsidiary continues to make good progress.

Since 1982, we have invested heavily in our northern markets. The excellent return we are now starting to receive from that investment is more than compensating for the hard-hit southern areas where economic problems are often compounded by an oversaturation of food stores. For that very reason, capital spending in the south has been maintained at a minimum until the future outlook improves.

In Florida, a very difficult near-term outlook led us to dispose of our 18 Family Mart combination stores during the year, on favorable terms, to divert the funds to our more profitable trading areas. It is this redeployment of funds from nonproducing assets to the company's profitable areas that has enabled us to make such good progress in recent years.

Development Program

In 1980 A&P had no cash. We were able to convert loss-making and surplus assets into a $1 billion development program to renew existing stores, build new ones and add others through acquisition. This investment has been dedicated to improving our consumer image by improving our stores. In the process we have, through our program of acquisition, achieved excellent warehousing and support services at minimal cost, to be able to cope adequately with our future growth.

The shape of the company has dramatically changed during the 80's. It has evolved from a large uniform grocery chain trading under the A&P identity, to an organization of regional companies doing business under a number of identities through several different formats. The improvement in our cost structure in recent years has enabled us to achieve at least parity pricing with major competitors. We have also been able to improve our sales mix into the more profitable categories of merchandise, bringing our gross margin rates near the top of the industry, from a position at the bottom a few years ago.

Continued Challenge

Last year we introduced a very successful advertising campaign with the theme, "We built a proud new feeling." Individual market research studies have verified improvements in customer perception related to this campaign. We intend to continue the approach in fiscal 1987 with new variations geared to specific promotional events and special merchandising efforts.

We now have well-tested, new store types that appeal to the upscale shopper and those that compete well with discount operations. We have successfully completed the first year of a three-year, $345 million capital investment program to renew the company by fiscal 1988. That program is now being increased to $450 million to accommodate the growth plans for Waldbaum and Food Emporium over the next two years.

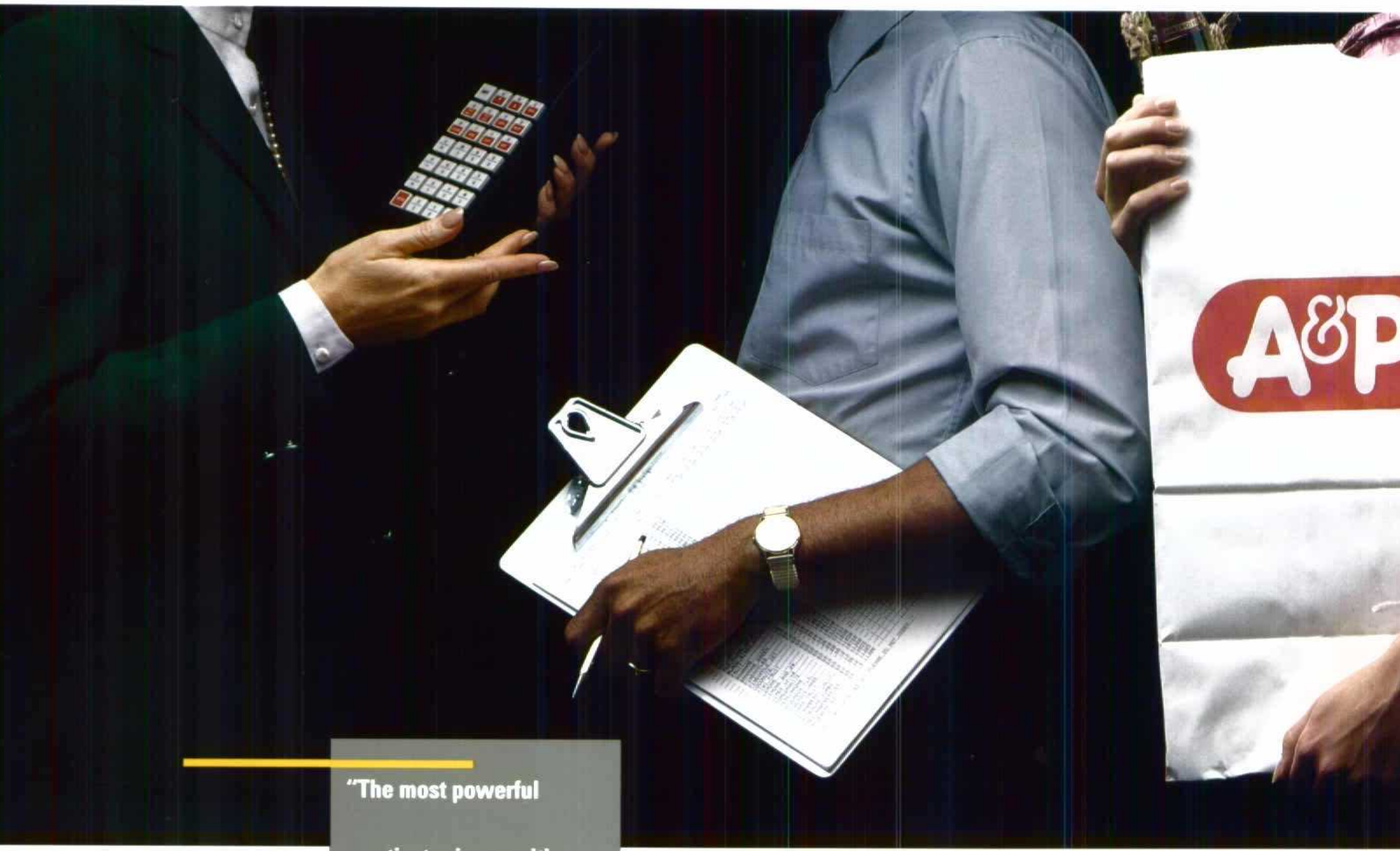
With store expansion and the requirement for more skilled employees, our commitment to training and people development becomes paramount. In the same vein, application of the latest technology to improve our control, planning and operational systems is key to our future success.

Our sales base entering 1987 is more than double our 1982 level, and we have also doubled the number of employees we had at that time. Our greatest challenge in the years ahead will be to continue to build an organization with people who can successfully manage a business that is constantly adjusting to the changing needs of its customers.

James Wood

James Wood
Chairman and
Chief Executive Officer

April 14, 1987



"The most powerful motivator is a positive attitude. And that's exactly what our Quality of Work Life program creates."

Jack DiFiore, President
Super Fresh Food Markets

We're building a proud new future with . . . A Winning Team

A&P's proud new future begins with a winning team of more than 81,000 people—a team made up of skilled people with more specialized expertise than in the past.

Key to a winning team is developing winning players. So A&P's training programs—in specific areas ranging from Seafood to Safety—are continually fine-tuned and upgraded.

Group executives are shown how to design and conduct effective training sessions; they then personalize the process for their people at the store level. It's an idea that has strengthened the bond between employees and management.

That bond is crucial to our success. Thus, we listen to and act upon employee suggestions, through a participatory style of management that fosters two-way communication and a spirit of partnership.

The process is part of the Quality of Work Life Concept. This store-level program encourages all employees to participate in the everyday decisions regarding store operations and rewards them with monetary bonuses for achieving labor/sales goals.

Initiated in our Philadelphia Super Fresh stores in 1982, Quality of Work Life has since expanded to 243 stores company-wide. It was adopted by Kohl's Wisconsin in 1983, A&P Baton Rouge in 1985, and Super Fresh Richmond, Baltimore and Washington, D.C. in 1986. The program is generating enthusiasm on all levels—praised by store, union and management personnel as a prime motivator for improving service and productivity.

The result: teamwork that is building a winner.

We're building a proud new future with . . . Innovative Store Formats

Acquisition continued to be a primary form of expansion in 1986, as A&P purchased two major food chain operations.

Shopwell, Inc., purchased in the second quarter, is a chain of 53 stores including 26 Food Emporium stores. Boasting exotic perishables and specialty items in a visually exciting atmosphere, Food Emporiums are targeted squarely at the discerning urban consumer.

The Waldbaum chain, purchased in the fourth quarter, consists of 103 modern supermarkets in the metropolitan New York area and 36 Food Mart stores in New England.

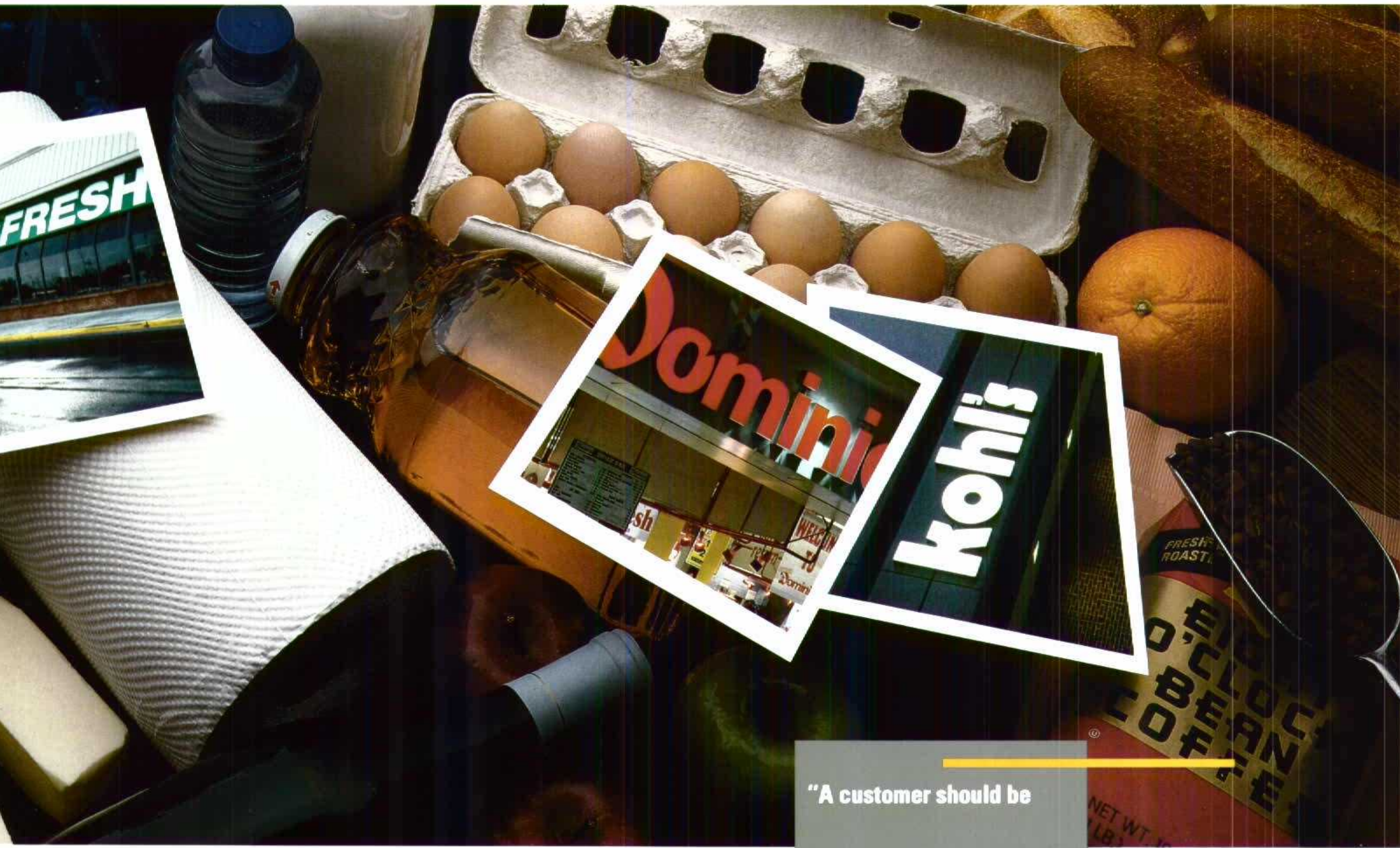
These acquisitions are indicative of the A&P store strategy: appeal to more segmented consumer lifestyles with a variety of regionalized, innovative store formats. To this end, we're midway through our $450 million program to:

Open 120 new stores, predominantly of the superstore variety. With typical total floor area of 40,000 square feet, A&P superstores now appeal to the one-stop shopper looking for a greater assortment and more emphasis on service. Our two superstore prototypes are:

Futurestore–Featuring a contemporary, black-and-white interior design, this upscale superstore offers quality perishables, ethnic and specialty service islands, and a mix of more than 18,000 products.

Sav-A-Center–With vivid graphics and a strong price/promotional approach, this store touts superstore quality, variety and service at reduced warehouse prices.

Modernize over 300 stores. Our existing neighborhood stores–A&P, Waldbaum, Shopwell, Dominion, Kohl's and Super Fresh–will be upgraded to offer the right product mix for the community each serves.



"A customer should be able to walk in and immediately think, 'This store was designed with me in mind.'"

Frank Fontana
Manager
Food Emporium
Norwalk, CT

"We are making good

progress in systems

development . . .

and we're reaching

for improvements

every year."

Sabine Thomaschewsky
Project Manager
Store Automation Systems

We're building a proud new future with . . . Higher Efficiency, Higher Technology

Cost control systems have contributed significantly to A&P's revitalization. Needless to say, we're staying with our success formula. Setting performance goals. Implementing better systems to achieve our goals. Monitoring performance on a continuous basis.

The key to analyzing and monitoring data is, of course, computer technology. Our store scanner systems–which speed checkouts, heighten productivity, and ensure shelf/product/checkout price uniformity–will soon be taking a major step forward.

So will another technological breakthrough: store computers. They will expedite such daily operations as store-to-headquarters communications, attendance tracking, labor scheduling and order processing.

At the corporate level, we are poised to install state-of-the-art computer applications for more efficient procurement, advertising, warehouse billing, inventory control, ordering, payroll, and other ways of converting high technology to high efficiency.

As additional software and hardware become available, their applications will be thoroughly analyzed with an eye toward the future. Finding and maintaining the most up-to-date technology will continue to be a key priority.

We're building a proud new future with . . . Aggressive Marketing Strategies

Sweeping changes of recent years have all but erased the stereotypical food shopper and an array of highly segmented consumer groups has emerged.

Today's A&P is a market-driven company, answering key demographic questions with aggressive marketing strategies.

Who is shopping? Singles, shopping for one. Working women, who now comprise 70 percent of all females aged 25 to 40. Husbands, sharing chores with their working wives. And teenaged children.

The common denominator: lack of time. With leisure hours now a rarity, A&P offers its customers true one-stop shopping. A variety of services under one roof. Not just a bakery and deli. But also a service butcher. A florist. A video center. A film drop-off center. A pharmacy, and more.

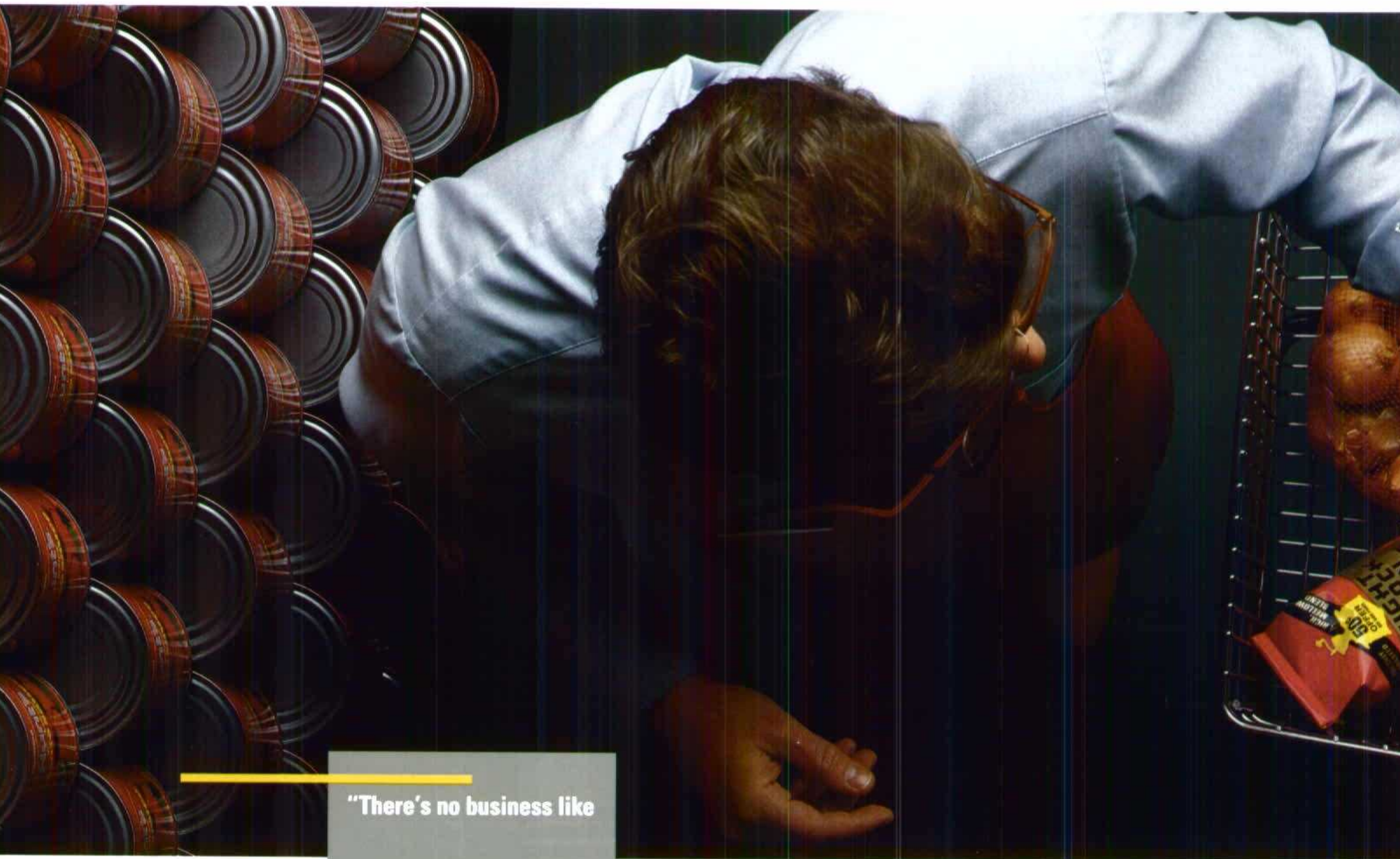
What are they buying? Food that's fast, nutritious and exotic. In 1986 we introduced Eight O'Clock Royale, a pre-packaged line of gourmet coffee beans, to take advantage of the growing interest in specialty coffees. Today's consumers are more discriminating, they're demanding better quality and greater variety.

That's a big order. So we're building bigger stores. The trend is toward more square footage. Enough to house many specialty service departments—with gourmet, ethnic, healthful, take-out and prepared foods—and still offer a wide selection of perishables and other quality products.

All in pursuit of an overriding goal: Give customers what they're looking for.

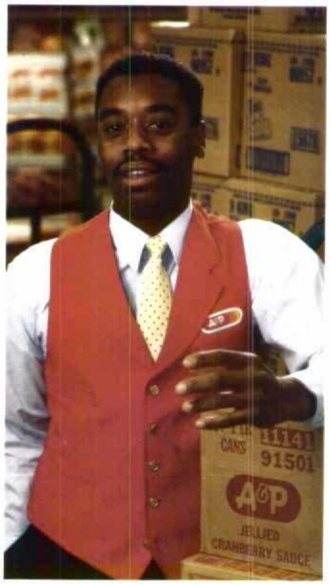
"In today's marketplace, 'typical customer' is a contradiction in terms."

Charles McKague
Vice President,
Purchasing
A&P–Canada

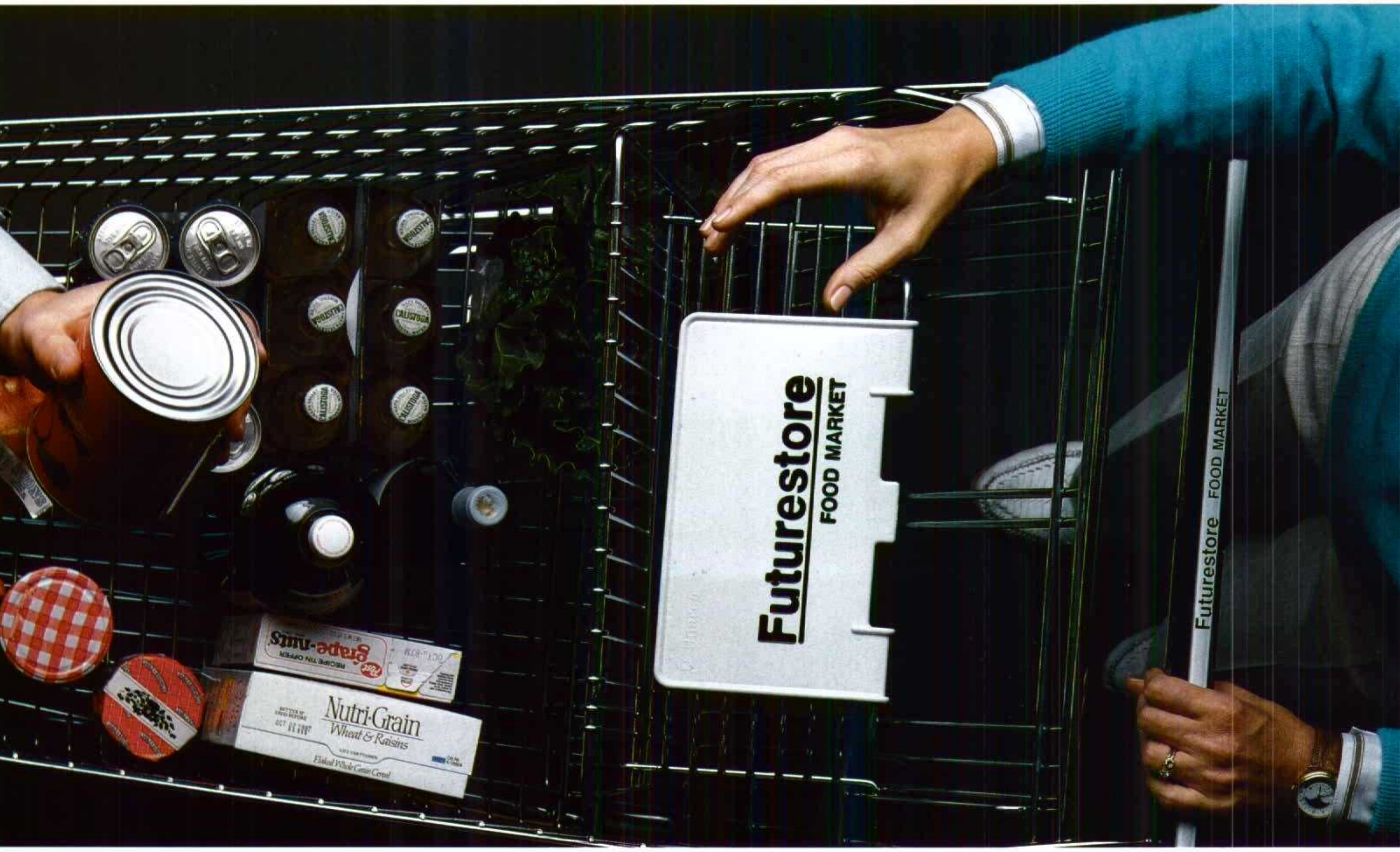


"There's no business like show business. Except this business."

Elton Cook
Management Trainee
Montclair, NJ



We're building a proud new future with . . . A Proud New Feeling



You can feel it in the air...
It's in everything we do...
We've built a proud new feeling...
That we want to share with you.

To anybody within driving distance of one of our stores, the above refrain is surely a familiar one–the product of a campaign that's getting the word out to all consumers.

The message: There's a new pride, a new confidence, a new commitment to the customer at A&P. You'll be able to feel it as soon as you enter the store.

Our atmosphere is friendly. Our merchandise is in stock. Our selection is unmatched. Our produce is fresh. Our aisles are clean. Our people are helpful. Our checkouts are quick. Our prices are competitive. Come in and see.

This message crystallizes the 1986 A&P story. A strong combination of a winning team, innovative store formats, higher efficiency/technology and more aggressive marketing strategies is producing results where it counts. In our stores. For our customers, employees and shareholders.

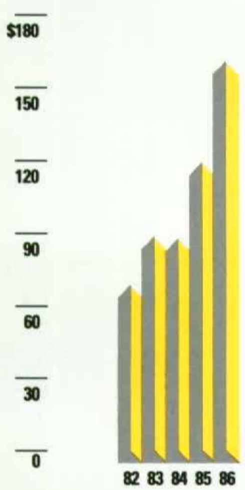
If our pride is showing, it's because we have a lot to be proud of. Our company, with a 127-year tradition of giving customers the best food value they can find, is returning... well on our way to being stronger, wiser and prouder than ever.

Financial Information

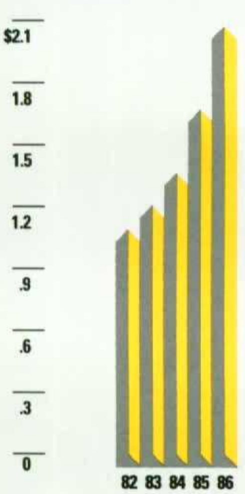
Five-Year Summary of Selected Financial Data

(Dollars in thousands, except per share figures)

Income from Operations
Millions of dollars



Total Assets
Billions of dollars



For the fiscal year	**1986 (53 weeks)**	1985 (52 weeks)	1984 (52 weeks)	1983 (52 weeks)	1982 (52 weeks)
Operating results					
Sales	**$7,834,859**	$6,615,422	$5,878,286	$5,222,013	$4,607,817
Income before extraordinary credits	**69,010**	56,090	50,779	31,401	21,361
Net income	**95,010**	88,290	215,779	47,551	31,211
Per share data					
Income before extraordinary credits	**1.82**	1.48	1.35	.84	.57
Net income	**2.50**	2.33	5.74	1.27	.83
Cash dividends	**.40**	.10	–	–	–
Financial position					
Current assets	**898,854**	756,594	642,822	654,266	592,801
Current liabilities	**805,436**	582,503	472,530	487,885	407,732
Working capital	**93,418**	174,091	170,292	166,381	185,069
Current ratio	**1.12**	1.30	1.36	1.34	1.45
Total assets	**2,080,226**	1,663,760	1,363,101	1,199,928	1,087,395
Long-term debt	**196,209**	151,306	94,635	106,152	116,557
Capital lease obligations	**223,933**	196,360	148,366	153,031	143,160
Equity					
Shareholders' equity	**755,718**	668,688	582,953	375,789	329,372
Book value per share	**19.85**	17.63	15.48	10.02	8.81
Weighted average shares outstanding	**38,017,000**	37,839,000	37,599,000	37,456,000	37,399,000
Number of shareholders	**20,717**	22,433	24,746	27,289	29,312
Other					
Number of employees	**81,500**	60,000	53,000	53,000	40,000
Number of stores at year end	**1,200**	1,045	1,001	1,022	1,016
Total store area (square feet)	**32,609,000**	27,648,000	25,313,000	23,276,000	22,601,000

Operating Results

Fiscal 1986 Compared with 1985

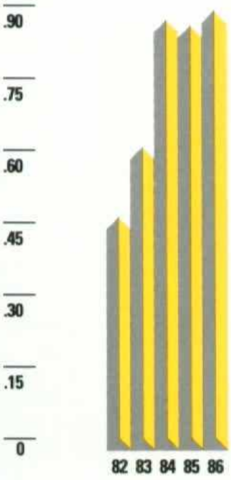
Sales for fiscal 1986 were $7.8 billion as compared with $6.6 billion in fiscal 1985, an 18.4% increase. Average weekly sales per store for the period increased from $118,266 to $135,121 for an increase of 14.3%. The increase in sales reflects the acquisitions of Waldbaum, Inc. and Shopwell, Inc., the construction of new stores, the remodeling of existing stores and 53 week results for fiscal 1986 as compared to 52 week results for fiscal 1985. This increase was partially offset by the closure of 73 stores including the fourth quarter sale of 21 Family Mart combination stores.

Gross margins as a percent of sales increased .7% over the prior year from 23.8% to 24.5% resulting primarily from cost reductions due to a more aggressive purchasing policy.

Store operating, general and administrative expense as a percent of sales increased to 22.5% for the current year from 22.0% for the prior year primarily due to increased costs and expenses associated with store labor and store development programs.

The increase in interest expense is due to the assumption of borrowings resulting from the acquisitions of Waldbaum, Inc. and Shopwell, Inc.

Return on Sales before Extraordinary Credits
Percentages



Although the Company's effective tax rate decreased to 46.8% in fiscal 1986 from 48.6% in fiscal 1985, the provision for income taxes increased as a result of increased profitability. This increase was partially offset by an extraordinary credit representing the utilization of the Company's U.S. Federal tax carryforwards.

Fiscal 1985 Compared with 1984

Sales for fiscal 1985 were $6.6 billion as compared with $5.9 billion in fiscal 1984, a 12.5% increase. Average weekly sales per store for the period increased from $112,953 to $118,266 for an increase of 4.7%. The increase in sales reflects the acquisition of Dominion during the first quarter of 1985, the construction of new stores and the remodeling of existing stores.

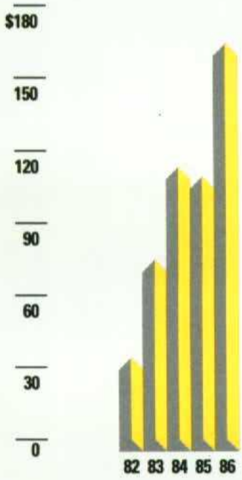
Gross margins as a percent of sales increased .7% over the prior year from 23.1% to 23.8% resulting primarily from cost reductions due to a more aggressive purchasing policy.

Store operating, general and administrative expense as a percent of sales increased to 22.0% for the current year from 21.6% for the prior year primarily due to increased costs and expenses associated with remodeling and new store development programs.

The increase in interest income is attributable to the higher average level of interest bearing marketable securities. The increase in interest expense is due to borrowings associated with the acquisition of Dominion and additional capital leases.

The provision for income taxes increased as a result of increased profitability. The effect of the increase was partially offset by extraordinary credits representing the utilization of the Company's U.S. Federal net operating loss and investment tax credit carryforwards.

Capital Expenditures
Millions of dollars



Fiscal 1984 Compared with 1983

Sales for fiscal 1984 were $5.9 billion as compared with $5.2 billion in fiscal 1983, a 12.6% increase. Average weekly sales per store for the period increased from $106,500 to $112, 953 for an increase of 6.1%. The increase in sales reflects the purchase and construction of new stores during fiscal 1984, the acquisition of Kohl's Food Stores during the third quarter of 1983 and the continued growth and development of the Super Fresh subsidiary.

Gross margins as a percent of sales increased .5% over the prior year from 22.6% to 23.1% resulting primarily from cost reductions due to a more aggressive purchasing policy.

Store operating, general and administrative expense as a percent of sales increased to 21.6% for the current year from 20.9% for the prior year primarily due to an increase in costs associated with the Company's new Employee Retirement Savings Plan and Stock Appreciation Rights.

The increase in interest income is attributable to the higher average level of marketable securities resulting from the Company's Pension Plan termination. In addition, net income includes $22.5 million of gains realized in connection with the sale of certain marketable securities.

The provision for income taxes increased as a result of increased profitability. The effect of the increase was offset by an extraordinary credit representing the utilization of the Company's U.S. Federal net operating loss carryforward.

With the termination of its Employees' Retirement Plan on May 31, 1984, the Company recorded an extraordinary credit of $135 million.

Liquidity and Capital Resources

The Company ended the fiscal year with working capital of $93 million as compared with $174 million and $170 million at February 22, 1986 and February 23, 1985, respectively. The reduction in working capital resulted from the acquisitions of Waldbaum, Inc. and Shopwell, Inc. during the current fiscal year. The Company had cash and short-term investments aggregating $62 million at the end of fiscal 1986 as compared with $69 million and $73 million at the end of fiscal 1985 and fiscal 1984, respectively. The Company also has in excess of $200 million in available credit facilities.

During fiscal 1986, the Company had capital expenditures of $163 million, debt repayments of $42 million and spent $347 million on acquisitions. To finance this activity, the Company supplemented its internally generated funds by liquidating approximately $254 million of marketable securities and selling certain under-performing assets.

The Company's current cash resources, together with available credit facilities and income from operations, are sufficient for the Company's capital expenditure program, debt retirements and dividend payments in fiscal 1987.

Statement of Consolidated Operations

(Dollars in thousands, except per share figures)	**Fiscal 1986 (53 weeks)**	Fiscal 1985 (52 weeks)	Fiscal 1984 (52 weeks)
Sales	**$ 7,834,859**	$6,615,422	$5,878,286
Cost of merchandise sold	**5,912,746**	5,043,440	4,523,275
Gross margin	**1,922,113**	1,571,982	1,355,011
Store operating, general and administrative expense	**(1,762,789)**	(1,452,578)	(1,267,636)
Income from operations	**159,324**	119,404	87,375
Interest expense	**(47,822)**	(40,454)	(31,641)
Interest income	**17,908**	30,140	21,271
Gain on sale of marketable securities and other investments	**–**	–	22,474
Income before income taxes and extraordinary credits	**129,410**	109,090	99,479
Provision for income taxes	**(60,400)**	(53,000)	(48,700)
Income before extraordinary credits	**69,010**	56,090	50,779
Extraordinary credit–utilization of tax carryforwards	**26,000**	32,200	30,000
Extraordinary credit–pension	**–**	–	135,000
Net income	**$ 95,010**	$ 88,290	$ 215,779
Per common share:			
Income before extraordinary credits	**$ 1.82**	$ 1.48	$ 1.35
Extraordinary credit–utilization of tax carryforwards	**.68**	.85	.80
Extraordinary credit–pension	**–**	–	3.59
Net income	**$ 2.50**	$ 2.33	$ 5.74

Statement of Consolidated Shareholders' Equity

(Dollars in thousands)	**Fiscal 1986 (53 weeks)**	Fiscal 1985 (52 weeks)	Fiscal 1984 (52 weeks)
Common stock:			
Balance beginning of year	**$ 37,939**	$ 37,668	$ 37,509
Exercise of options	**129**	271	159
	$ 38,068	$ 37,939	$ 37,668
Capital surplus:			
Balance beginning of year	**$ 424,166**	$ 422,613	$ 421,715
Exercise of options and phantom share agreement	**3,266**	1,553	898
	$ 427,432	$ 424,166	$ 422,613
Cumulative translation adjustment:			
Balance beginning of year	**$ (16,163)**	$ (15,577)	$ (5,905)
Exchange adjustment	**3,834**	(586)	(9,672)
	$ (12,329)	$ (16,163)	$ (15,577)
Retained earnings (deficit):			
Balance beginning of year	**$ 222,746**	$ 138,249	$ (77,530)
Net income	**95,010**	88,290	215,779
Cash dividends	**(15,209)**	(3,793)	–
	$ 302,547	$ 222,746	$ 138,249

See Notes to Consolidated Financial Statements on pages 21 through 29.

Consolidated Balance Sheet

(Dollars in thousands)	February 28, 1987	February 22, 1986
Assets		
Currents assets:		
Cash and short-term investments	**$ 62,068**	$ 68,740
Accounts receivable	**93,522**	75,615
Inventories	**703,519**	576,717
Properties held for sale	**19,082**	14,138
Prepaid expenses	**20,663**	21,384
Total current assets	**898,854**	756,594
Property:		
Land	**72,734**	25,272
Buildings	**174,995**	72,259
Equipment and leasehold improvements	**939,814**	607,957
Total–at cost	**1,187,543**	705,488
Less accumulated depreciation and amortization	**(214,145)**	(234,160)
	973,398	471,328
Property leased under capital leases	**188,431**	166,831
Property–net	**1,161,829**	638,159
Marketable securities and other investments–at cost (approximates market)	**–**	254,350
Other assets	**19,543**	14,657
	$ 2,080,226	$1,663,760
Liabilities and Shareholders' Equity		
Current liabilities:		
Current portion of long-term debt	**$ 31,159**	$ 30,076
Current portion of obligations under capital leases	**19,291**	12,320
Accounts payable	**444,533**	332,045
Accrued salaries, wages and benefits	**109,095**	86,669
Accrued taxes	**59,466**	43,363
Other accruals	**141,892**	78,030
Total current liabilities	**805,436**	582,503
Long-term debt	**196,209**	151,306
Obligations under capital leases	**223,933**	196,360
Deferred income taxes	**13,455**	17,655
Other non-current liabilities	**85,475**	47,248
Shareholders' equity:		
Preferred stock–no par value; authorized–3,000,000 shares; issued–none		
Common stock–$1 par value; authorized–80,000,000 shares; issued and outstanding–38,067,993 and 37,939,112 shares, respectively	**38,068**	37,939
Capital surplus	**427,432**	424,166
Cumulative translation adjustment	**(12,329)**	(16,163)
Retained earnings	**302,547**	222,746
Total shareholders' equity	**755,718**	668,688
	$ 2,080,226	$1,663,760

See Notes to Consolidated Financial Statements on pages 21 through 29.

Statement of Changes in Consolidated Financial Position

(Dollars in thousands)	Fiscal 1986 (53 weeks)	Fiscal 1985 (52 weeks)	Fiscal 1984 (52 weeks)
Source of funds:			
From operations:			
Income before extraordinary credits	**$ 69,010**	$ 56,090	$ 50,779
Expenses not requiring working capital:			
Depreciation and amortization	**103,471**	80,341	66,242
Charge in lieu of U.S. Federal income tax	**26,000**	32,200	30,000
Deferred income taxes	**(4,200)**	3,000	2,400
Working capital provided from operations before extraordinary credit	**194,281**	171,631	149,421
Extraordinary credit–pension	**–**	–	135,000
Total working capital provided from operations	**194,281**	171,631	284,421
Decrease (increase) in marketable securities and other investments	**254,350**	(9,451)	(244,899)
Disposition of property	**49,075**	12,152	5,980
Proceeds from borrowings	**10,905**	127,582	–
Decrease (increase) in cumulative translation adjustment	**3,834**	(586)	(9,672)
Obligations under capital leases	**2,000**	43,330	12,617
Conversion of prepaid pension upon plan termination	**–**	–	130,000
Other, net	**7,795**	(14,242)	(20,426)
Total	**522,240**	330,416	158,021
Disposition of funds:			
Acquisitions less working capital acquired: 1986, $9,278 and 1985, $30,314	**337,915**	85,434	–
Expenditures for property	**163,239**	108,579	112,695
Decrease in obligations under capital leases	**42,282**	12,066	17,282
Decrease in long-term debt	**42,268**	73,415	11,517
Cash dividends	**15,209**	3,793	–
Property leased under capital leases	**2,000**	43,330	12,616
Total	**602,913**	326,617	154,110
Increase (decrease) in working capital	**(80,673)**	3,799	3,911
Working capital–beginning of year	**174,091**	170,292	166,381
Working capital–end of year	**$ 93,418**	$174,091	$170,292
Increase (decrease) in components of working capital:			
Cash and short-term investments	**$ (6,672)**	$ (3,851)	$ 7,396
Accounts receivable	**17,907**	19,585	6,101
Inventories	**126,802**	92,754	(10,071)
Properties held for sale	**4,944**	(8,117)	(15,898)
Prepaid expenses	**(721)**	13,401	1,028
	142,260	113,772	(11,444)
Current portion of long-term debt	**1,083**	18,204	(7,135)
Current portion of obligations under capital leases	**6,971**	(574)	332
Accounts payable	**112,488**	69,630	(28,765)
Accrued expenses	**38,529**	13,675	16,405
Other accruals	**63,862**	9,038	3,808
	222,933	109,973	(15,355)
Increase (decrease) in working capital	**$ (80,673)**	$ 3,799	$ 3,911

See Notes to Consolidated Financial Statements on pages 21 through 29.

Notes to Consolidated Financial Statements

Summary of Significant Accounting Policies

Fiscal Year The Company's fiscal year ends on the last Saturday in February. Fiscal 1986 ended February 28, 1987, fiscal 1985 ended February 22, 1986 and fiscal 1984 ended February 23, 1985. Fiscal 1986 was comprised of 53 weeks while fiscal 1985 and 1984 were each comprised of 52 weeks.

Common Stock As of February 28, 1987 the principal shareholder of the Company, Tengelmann Warenhandelsgesellschaft ("Tengelmann"), owned 52.4% of the Company's common stock.

Principles of Consolidation The consolidated financial statements include the accounts of the Company and all majority-owned subsidiaries.

Inventories Store inventories are valued principally at the lower of cost or market with cost determined under the retail method. All other inventories (primarily in warehouses and food processing facilities) are valued at the lower of cost or market with cost determined on a first-in, first-out basis.

Properties Depreciation and amortization are provided on the straight line basis over the estimated useful lives of the assets. Buildings are depreciated based on lives varying from twenty to fifty years and equipment based on lives varying from three to ten years. Equipment and real property leased under capital leases are amortized over the lives of the respective leases. Properties designated for sale have been classified as current assets.

Pre-opening Costs Costs incurred in the opening of new stores are expensed at the time the store is opened.

Income Taxes The Company provides deferred income taxes in recognition of timing differences between income for financial reporting and income tax purposes. Investment tax credits are amortized over the estimated useful lives of the related assets.

Retirement Plans Costs of the Company's employee benefit plans are expensed and funded on a current basis. Costs under union/management administered plans are expensed as provided for in the respective collective bargaining agreements.

Compensated Absences The Company accrues for vested and non-vested vacation pay. Liabilities for compensated absences of $46 million and $39 million at February 28, 1987 and February 22, 1986, respectively, are included in the balance sheet caption "Accrued salaries, wages and benefits".

Earnings Per Share Net income per share is based on the weighted average number of common shares outstanding during the year. Stock options outstanding had no material effect on the computation of net income per share.

Notes to Consolidated Financial Statements

Acquisitions

During the fourth quarter of 1986 the Company, as the general partner of a partnership, acquired an approximate 95% interest in Waldbaum, Inc. ("Waldbaum") for $277 million in cash. The shares of Waldbaum were purchased pursuant to a Stock Purchase Agreement on November 26, 1986 and a tender offer dated November 28, 1986 at $50 per share. Waldbaum operates 139 retail supermarkets in the New York, Connecticut and Massachusetts area. In July, 1986 the Company acquired all of the outstanding shares of Shopwell, Inc. ("Shopwell") for approximately $70 million in cash. Shopwell, located in the Metropolitan New York area, operates 53 retail supermarkets.

The acquisitions of Waldbaum and Shopwell have been accounted for as purchases and accordingly, the Company has allocated the purchase price to the assets acquired and liabilities assumed as follows: property, including property leased under capital leases–$511 million, long-term debt including capital lease obligations–$144 million, net other non-current liabilities including $15 million minority interest–$29 million.

The results of operations of Waldbaum and Shopwell have been included in the consolidated results of the Company from the respective dates of acquisition. Pro forma sales, had the acquisitions been completed on February 24, 1985, would have been $9,470 million and $8,840 million for fiscal years 1986 and 1985, respectively. Pro forma net income and net income per share have been omitted, as the results of Waldbaum and Shopwell prior to the dates of acquisition would not materially affect the results as reported in the accompanying Statement of Consolidated Operations. Pro forma information is not necessarily indicative of the actual results that would have occurred, or the future operations of the combined companies.

On April 29, 1985 the Company purchased from Dominion Stores Limited, 92 stores, 2 warehouses and an office complex ("Dominion") located in the Province of Ontario for approximately $116 million. The acquisition has been accounted for as a purchase and, accordingly, the results of operations of Dominion are included in the Statement of Consolidated Operations from the date of acquisition.

Operations in Geographic Areas

The Company has been engaged in the retail food business since 1859 and currently does business under the names A&P, Super Fresh, Family Mart, Kohl's, Waldbaum's, Shopwell, Food Emporium, Food Mart, Sav-A-Center, Sun, Futurestores, Dominion and Compass Foods. Sales and revenues in the table below reflect sales to unaffiliated customers in the United States and foreign countries (principally Canada).

(Dollars in thousands)	**Fiscal 1986**	Fiscal 1985	Fiscal 1984
Sales:			
Domestic	**$ 6,178,519**	$5,163,857	$4,955,686
Foreign	**1,656,340**	1,451,565	922,600
Total	**$ 7,834,859**	$6,615,422	$5,878,286
Income from operations:			
Domestic	**$ 94,888**	$ 72,626	$ 57,296
Foreign	**64,436**	46,778	30,079
Total	**$ 159,324**	$ 119,404	$ 87,375
Assets:			
Domestic	**$ 1,700,010**	$1,306,014	$1,184,199
Foreign	**380,216**	357,746	178,902
Total	**$ 2,080,226**	$1,663,760	$1,363,101

Indebtedness

Debt consists of:

(Dollars in thousands)	**February 28, 1987**	February 22, 1986
9½% Senior Notes, due in annual installments of $10,000 through October 1, 1992	**$ 60,000**	$ 70,000
13½% Promissory Notes	**–**	64,732
Mortgages and Other Notes	**122,728**	46,650
Commercial Paper	**44,640**	–
	227,368	181,382
Less current portion	**(31,159)**	(30,076)
Long-term debt	**$ 196,209**	$151,306

The net book value of real estate pledged as collateral for all mortgage loans amounted to approximately $160 million as of February 28, 1987. Mortgages have interest rates ranging from ⅞% to 14⅛% and mature in fiscal years 1987 through 2011.

During fiscal 1986, the Company restructured the terms of a $100 million revolving credit/term loan agreement with banks. The revised agreement allows the Company to borrow funds on a revolving basis until September 1, 1989. Thereafter, the Company has the right to convert any outstanding borrowings into a 4-year term loan, repayable in equal semi-annual installments. The agreement provides for interest based upon prevailing rates (approximates prime) plus a commitment fee on the unused portion of the facility. The Company also maintains $170 million in lines of credit with banks. The maximum borrowings under these agreements were $85.6 million in 1986. Average outstanding balances during fiscal 1986 were $7.0 million with an average interest rate of 6.5%. At February 28, 1987, borrowings under these facilities totaled $6.7 million at an interest rate of 6.1%.

During fiscal 1986, the Company's Canadian subsidiary refinanced all of its 1985 borrowing arrangements pursuant to a new $75 million commercial paper program. In addition a new credit facility was arranged, whereby, the Company, at its option, may refinance at market interest rates any borrowings under its commercial paper program with loans having maturities of 2 to 5 years. It is the Company's intent to continue its commercial paper program and has classified these borrowings as long-term debt.

The Company's loan agreements contain certain financial covenants including limitations on the payment of cash dividends, the maintenance of minimum levels of working capital and limitations on the incurrence of additional indebtedness and lease commitments. At February 28, 1987, approximately $202 million of retained earnings were free of the dividend restrictions.

Maturities of debt during each of the next five fiscal years are: 1987–$31 million; 1988–$15 million; 1989–$20 million; 1990–$17 million; 1991–$15 million. Current maturities of debt in 1987 include $10 million of mortgages due after 1987 relating to "Properties held for sale".

Lease Obligations

The Company operates primarily in leased facilities. Lease terms generally range up to twenty-five years for store leases and thirty years for other leased facilities, with options to renew for additional periods. The majority of the leases contain escalation clauses relating to real estate tax increases, and certain of the store leases provide for increases in rentals when sales exceed specified levels. In addition, the Company leases some store equipment and trucks.

The consolidated balance sheet includes the following:

(Dollars in thousands)	**February 28, 1987**	February 22, 1986
Real property leased under capital leases	**$ 250,040**	$242,635
Equipment leased under capital leases	**41,315**	34,834
	291,355	277,469
Accumulated amortization	**(102,924)**	(110,638)
	$ 188,431	$166,831

Rent expense for operating leases consists of:

(Dollars in thousands)	**1986**	1985	1984
Minimum rentals	**$ 81,035**	$ 67,836	$ 53,890
Contingent rentals	**8,148**	6,611	5,915
	$ 89,183	$ 74,447	$ 59,805

Minimum annual rentals for leases in effect at February 28, 1987 are shown in the table below. All amounts are exclusive of lease obligations and sublease rentals applicable to facilities for which reserves have previously been established.

(Dollars in thousands)	Capital Leases		
Fiscal	Equipment	Real Property	Operating Leases
1987	$ 10,666	$ 35,422	$ 81,217
1988	10,011	34,966	76,248
1989	6,304	34,586	69,599
1990	4,856	33,842	62,052
1991	3,099	32,849	55,327
1992 and thereafter	1,071	276,371	399,916
	36,007	448,036	$744,359
Less executory costs	–	(7,869)	
Net minimum rentals	36,007	440,167	
Less interest portion	(6,612)	(226,338)	
Present value of net minimum rentals	$ 29,395	$213,829	

Stock Options

The Company has a 1975 and a 1984 Stock Option Plan for its officers and key employees. As of February 23, 1985 all available options under the 1975 Stock Option Plan had been granted, of which 550,000 shares remain unexercised. The 1984 Stock Option Plan provides for the granting of 1,500,000 shares, either as options or Stock Appreciation Rights ("SAR's") at exercise prices equal to the fair value of the Company's common stock on the date the option is granted. SAR's allow the optionee, in lieu of purchasing stock, to receive cash in an amount equal to the excess of the fair market value of common stock on the date of exercise over the option price. Compensation expense relating to SAR's of $4 million and $3 million was recorded during the fiscal years 1986 and 1985, respectively. A total of 351,500 SAR's were granted in fiscal 1986.

A summary of option transactions is as follows:

	Shares	Price Range Per Share
Outstanding February 23, 1985	1,275,696	$ 4.94 –$16.37
Cancelled or expired	(5,000)	5.50 – 10.06
Options exercised	(271,134)	5.50 – 15.12
SAR's exercised	(162,898)	4.94 – 8.19
Outstanding February 22, 1986	836,664	5.50 – 16.37
Granted	351,500	21.50 – 24.75
Cancelled or expired	(17,500)	5.50 – 12.88
Options exercised	(128,881)	5.50 – 15.12
SAR's exercised	(27,454)	5.50 – 14.75
Outstanding February 28, 1987	1,014,329	$ 5.50 –$24.75
Exercisable at:		
February 22, 1986	601,656	
February 28, 1987	579,071	

Litigation

On March 18, 1983, a judgment was entered by the Federal Court in Newark, New Jersey, and affirmed on December 29, 1983 by the Third Circuit Court of Appeals, approving the settlement of an action brought by a former executive on behalf of himself and a class of participants in the Company's Employees' Retirement Plan. The action sought to prevent the termination of the plan and the distribution of the surplus assets to the Company. Pursuant to the settlement, the benefits to participants were increased at a cost of $50 million. On March 7, 1985, a purported class action, entitled *Ruthie Epting, et al.* v. *The Great Atlantic & Pacific Tea Company, Inc., et al.*, was brought in the same Federal Court against the Company, members of its Board of Directors and of its Retirement Board, and the Commissioner of Internal Revenue. The plaintiffs are persons who claim to be former employees who were discharged prior to obtaining vested pension rights under the plan. The plaintiffs seek a declaratory judgment, claiming that they were discharged under circumstances constituting a partial termination of the plan, thus entitling them to benefits under the plan as well as other relief. On January 6, 1986, the Federal Court conditionally dismissed this purported class action, ruling that the plaintiffs were within the settlement class. The court requested the Internal Revenue Service to review the issue of whether any partial terminations had occurred and to present its findings to the court for further determination if appropriate. On March 3, 1986, plaintiffs filed an appeal from the January 6, 1986 order. The appeal was dismissed for want of appellate jurisdiction by the Court of Appeals on November 28, 1986. The appellate court's decision indicated that the *Epting* complaint remained alive pending resolution of the partial termination inquiry currently before the Internal Revenue Service.

The Company is also involved in various other claims, administrative agency proceedings and other lawsuits arising out of the normal conduct of its business. Although the ultimate outcome of the above legal proceedings cannot be predicted, the management of the Company believes that resulting liability, if any, will not have a material effect upon the Company's financial position.

Income Taxes

The provision for income taxes consists of the following:

(Dollars in thousands)	**Fiscal 1986**	Fiscal 1985	Fiscal 1984
Current:			
Federal	**$ 38,500**	$37,400	$30,000
Canadian	**23,300**	10,500	12,400
State and local	**2,800**	2,100	3,900
	64,600	50,000	46,300
Deferred:			
Federal	**(8,500)**	(3,900)	–
Canadian	**4,300**	6,900	2,400
	$ 60,400	$53,000	$48,700

The Federal income tax provisions include a charge in lieu of Federal income tax of $26 million, $32 million and $30 million for fiscal years 1986, 1985 and 1984, respectively. These amounts have been offset by tax carryforwards of equal amount, which are included as an extraordinary credit in the Statement of Consolidated Operations. The 1986 provision also includes $4 million of amortization of investment tax credits. The Company has, for income tax purposes, investment tax credit carryforwards of approximately $4 million (net of the reduction required by the Tax Reform Act of 1986), which are expected to be used in fiscal 1987. In addition, the Company has unamortized investment tax credits of approximately $16 million for financial statement purposes.

The deferred Federal income tax provision results from expenses not yet deductible for tax purposes, principally related to insurance, closed store expenses, leasing and employee benefits, offset by accelerated tax depreciation. The deferred Canadian provision results from the excess of depreciation for tax purposes over amounts recorded for financial statement purposes, and from a provision for tax on the undistributed earnings of Canadian subsidiaries. Deferred taxes have not been provided on approximately $15 million of undistributed earnings of the Canadian subsidiaries which are considered to be permanently invested.

The difference between the Company's effective tax rate and the U.S. statutory rate is attributable primarily to a higher tax rate on Canadian earnings and state and local income taxes offset by amortization of investment tax credits.

The Company's Chief Executive Officer has received payments from Tengelmann in accordance with a phantom stock agreement. Under the terms of this agreement, the Company will recognize these payments as deductions for Federal income tax purposes, but based upon the facts and circumstances of the agreement, such payments do not represent compensation expense for financial statement purposes. Accordingly, the income tax benefit resulting from the fiscal 1986 payment has been recorded as a credit of $2.4 million to the capital surplus of the Company.

The $135 million extraordinary pension credit recorded in fiscal 1984 includes a $62 million charge in lieu of U.S. Federal income tax offset by a $62 million extraordinary credit resulting from utilization of operating loss carryforwards.

Retirement Plans and Benefits

On May 31, 1984, the Company terminated its Employees' Retirement Plan, which resulted in extraordinary credits, net of applicable taxes, of $265 million. The credit of $135 million in fiscal 1984 represents the excess of the fair market value of the plan assets over the remaining liabilities associated with the plan termination less the $130 million which was recorded in fiscal 1981.

The Company has a defined contribution Retirement Savings Plan under which an eligible participant may contribute up to 16% of eligible salary, subject to certain statutory limitations. The Company contributes 4% of such salary, plus 50% of the participant's initial 6% contribution. Participants become fully vested in the Company's contribution after 5 years of service. The Company's contributions charged to operations were $7 million in fiscal 1986 and fiscal 1985.

The Company also provides retirement benefits to certain non-union and some union employees under several defined benefit plans. Most other full-time and certain part-time union employees are covered by industry plans administered jointly by management and union representatives. The cost of these plans approximated $24, $22, and $21 million in fiscal 1986, 1985 and 1984, respectively.

A comparison of accumulated plan benefits and plan net assets for the Company's defined benefit plans is as follows:

(Dollars in thousands)	**January 1, 1987**	January 1, 1986
Actuarial present value of accumulated plan benefits:		
Vested	**$ 96,100**	$ 3,300
Non-Vested	**6,700**	1,100
	$102,800	$ 4,400
Net assets available for benefits	**$121,000**	$ 6,100

Accumulated plan benefits and net assets for the Company's Canadian subsidiary are not reflected in the January 1, 1986 valuations as such information was not previously required to be computed.

The weighted average assumed rate of return used in determining the actuarial present value of accumulated plan benefits was 8.2% and 9.0% in fiscal 1986 and fiscal 1985, respectively.

The Company could, under certain circumstances, be liable for unfunded vested benefits or other costs of jointly administered union/management plans.

In addition to providing pension benefits, the Company provides contributory health and life benefits to approximately 1,300 employees who have elected early retirement. Benefits are paid until such time as the employee reaches age 65. The costs of retiree benefits, which are not significant, are recognized as expense as claims are reported.

Summary of Quarterly Results (unaudited)

The following table summarizes the Company's results of operations by quarter for fiscal 1986 and 1985. The first quarter of each fiscal year contains sixteen weeks and the second and third quarters of each fiscal year contain twelve weeks. The fourth quarter of fiscal 1986 and 1985 contains thirteen weeks and twelve weeks, respectively.

(Dollars in thousands, except per share figures)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total Year
1986					
Sales	**$2,101,909**	**$1,680,933**	**$1,708,314**	**$2,343,703**	**$7,834,859**
Gross margin	**512,734**	**409,800**	**422,687**	**576,892**	**1,922,113**
Income from operations	**41,794**	**32,976**	**34,444**	**50,110**	**159,324**
Income before extraordinary credit	**18,986**	**14,780**	**14,545**	**20,699**	**69,010**
Net income	**28,686**	**23,380**	**22,245**	**20,699**	**95,010**
Per share data:					
Income:					
Before extraordinary credit	**.50**	**.39**	**.38**	**.55**	**1.82**
Net income	**.76**	**.61**	**.58**	**.55**	**2.50**
Cash dividends	**.10**	**.10**	**.10**	**.10**	**.40**
Market price:					
High	**25⅞**	**27¼**	**25**	**29⅞**	
Low	**21¼**	**22¼**	**20**	**22½**	
Number of stores at end of period:	**1,044**	**1,095**	**1,087**	**1,200**	
1985					
Sales	$1,938,860	$1,572,057	$1,523,792	$1,580,713	$6,615,422
Gross margin	461,290	374,277	358,480	377,935	1,571,982
Income from operations	34,236	28,937	27,948	28,283	119,404
Income before extraordinary credits	16,717	13,579	12,226	13,568	56,090
Net income	26,717	22,079	20,626	18,868	88,290
Per share data:					
Income:					
Before extraordinary credits	.44	.36	.32	.36	1.48
Net income	.71	.58	.54	.50	2.33
Cash dividends	–	–	–	.10	.10
Market price:					
High	18½	17⅛	19⅞	22½	
Low	15	15¼	15⅜	18½	
Number of stores at end of period	1,084	1,081	1,075	1,045	

Management's Report on Financial Statements

The management of The Great Atlantic & Pacific Tea Company, Inc. has prepared the consolidated financial statements and related financial data contained in this Annual Report. The financial statements were prepared in accordance with generally accepted accounting principles appropriate to our business and, by necessity and circumstance, include some amounts which were determined using management's best judgments and estimates with appropriate consideration to materiality. Management is responsible for the integrity and objectivity of the financial statements and other financial data included in this report. To meet this responsibility, management maintains a system of internal accounting controls to provide reasonable assurance that assets are safeguarded and that accounting records are reliable. Management supports a program of internal audits and internal accounting control reviews to provide assurance that the system is operating effectively.

The Board of Directors pursues its responsibility for reported financial information through its Audit Review Committee. The Audit Review Committee meets periodically and, when appropriate, separately with management, internal auditors and the independent certified public accountants, Deloitte Haskins & Sells, to review each of their respective activities.

James Wood

James Wood
Chairman of the Board of Directors
and Chief Executive Officer

Fred Corrado

Fred Corrado
Executive Vice President, Treasurer
and Chief Financial Officer

Opinion of Independent Certified Public Accountants

To the Shareholders and Board of Directors of The Great Atlantic & Pacific Tea Company, Inc.:

We have examined the consolidated balance sheets of The Great Atlantic & Pacific Tea Company, Inc. and its subsidiary companies as of February 28, 1987 and February 22, 1986 and the related statements of consolidated operations, shareholders' equity and changes in financial position for each of the three fiscal years in the period ended February 28, 1987. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying financial statements present fairly the financial position of the companies at February 28, 1987 and February 22, 1986 and the results of their operations and the changes in their financial position for each of the three fiscal years in the period ended February 28, 1987, in conformity with generally accepted accounting principles applied on a consistent basis.

Deloitte Haskins & Sells

Hackensack, New Jersey
April 14, 1987

Corporate Officers

James Wood
Chairman of the Board and Chief Executive Officer

Louis Sherwood
President

James W. Rowe
Vice Chairman of the Board and Assistant to the C.E.O.

Eckart C. Siess
Vice Chairman of the Board, Strategic Planning

Alan C. Goulding
Senior Executive Vice President, Merchandising and Distribution

Joseph H. McCarthy
Executive Vice President, Store Operations

Fred Corrado
Executive Vice President, Treasurer and Chief Financial Officer

Martin H. Kern
Executive Vice President, General Merchandise

Peter J. O'Gorman
Senior Vice President, Development

Ivan K. Szathmary
Senior Vice President, Chief Services Officer

Robert G. Ulrich
Senior Vice President and General Counsel

Randell A. Bostwick
President, Super Market Service Corp.

Peter R. Brooker
Vice President, Planning and Corporate Secretary

James B. Burmeister
Vice President, New Orleans Group

O.C. Cook
Vice President, Meat and Service Departments

Timothy J. Courtney
Vice President, Taxation

Julian J. DiFiore
President, Super Fresh Food Markets

R. Paul Gallant
President, Compass Foods

George Graham
Vice President, Merchandising Coordinator

Kenneth Green
Vice President, Produce Merchandising and Procurement

Michael J. Larkin
Vice President, Metro New York Group

Peter R. Lavoy
Vice President, Procurement

Francis X. Leonard
Vice President, Real Estate

H. Nelson Lewis
Vice President, Human Resources

James L. Madden
President, Mid-Atlantic Operations

Edward C. Mossop
Chairman, A&P Canada

Mary Ellen Offer
Assistant Corporate Secretary

Joseph P. Quirk
Vice President, Labor Relations

Michael J. Rourke
Vice President, Communications and Corporate Affairs

John D. Ryder
Vice President, Marketing

Richard J. Scola
Vice President and Assistant General Counsel

Caryle Sherwin
President, Midwest Operations

J. Paul Stillwell
President, Southern Operations

Robert W. Toomey
Vice President, Support Services

Burton J. Weinbaum
Vice President, Northeast Group

Herbert L. Whiteside
Vice President, Super Fresh of Virginia

Waldbaum Inc., subsidiary
Aaron Malinsky
President
Kenneth Abrahams
President, Food Mart Division

Directors

James Wood (c)
Chairman of the Board and Chief Executive Officer

Rosemarie Baumeister (b)
Executive Vice President, Tengelmann Warenhandelsgesellschaft, West Germany

Harold J. Berry (b) (c) (d)
Vice Chairman of The Board Emeritus, Merrill Lynch, Pierce, Fenner & Smith, Inc.

Walter D. Dance (a) (c) (d) (e)
Director Emeritus and Consultant, General Electric Company

Christopher F. Edley (a) (d) (e)
President, United Negro College Fund, Inc.

Helga Haub (c) (d)

Barbara Barnes Hauptfuhrer (a) (c) (e)
Director of various corporations

Paul C. Nagel, Jr. (a) (d)
Director of various corporations

James W. Rowe (d) (e)
Vice Chairman of the Board and Assistant to the C.E.O.

Louis Sherwood (c) (d)
President

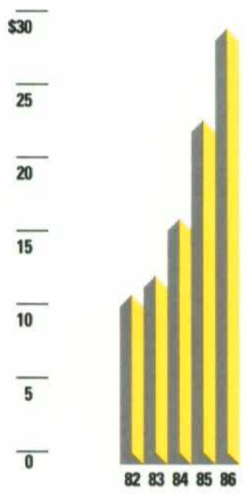
Eckart C. Siess (c) (e)
Vice Chairman of the Board, Strategic Planning

Fritz Teelen
President, Plus subsidiary, Tengelmann Warenhandelsgesellschaft, West Germany

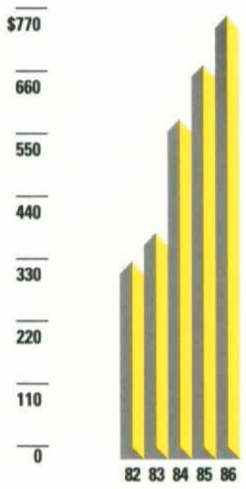
Henry W. Van Baalen (b)
Business Consultant

(a) Member of Audit Review Committee
Paul C. Nagel, Jr., Chairman
(b) Member of Compensation Policy Committee
Harold J. Berry, Chairman
(c) Member of Executive Committee
James Wood, Chairman
(d) Member of Finance Committee
Paul C. Nagel, Jr., Chairman
(e) Member of Retirement Benefits Committee
Barbara B. Hauptfuhrer, Chairman

Market Price per Share at Year End



Shareholders' Equity
Millions of dollars



Shareholder Information

Executive Offices

Box 418
2 Paragon Drive
Montvale, NJ 07645
Telephone (201) 573-9700

Transfer Agent and Registrar

American Stock Transfer Co.
New York, New York 10005

Annual Meeting

The Annual Meeting of Shareholders will be held at 10:00 a.m. on Thursday, July 9, 1987 at the Four Seasons Hotel, One Logan Square, Philadelphia, PA. Shareholders are cordially invited to attend.

Form 10-K

Copies of Form 10-K filed with the Securities and Exchange Commission will be provided to shareholders upon written request to the Secretary at the Executive Offices in Montvale, New Jersey.

Independent Accountants

Deloitte Haskins & Sells
Hackensack, New Jersey 07601

Shareholder Inquiries, Publications and Address Changes

Shareholders, security analysts, members of the media and others interested in further information about the Company are invited to contact the Corporate Affairs Department at the Executive Offices in Montvale, New Jersey.

Correspondence concerning address changes should be directed to American Stock Transfer Company, New York, New York 10005.

Common Stock

Common stock of the Company is listed and traded on the New York Exchange under the ticker symbol "GAP", and has unlisted trading privileges on the Boston, Midwest, Philadelphia, Cincinnati, and Pacific Stock Exchanges.